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SECTION IV – CONCEPT OF OPERATIONS: BUSINESS AND TECHNICAL

A.   OVERVIEW

Section IV describes the California Public Employees' Retirement System (CalPERS) future business model, the technology principles, and architecture believed to be instrumental to CalPERS achieving their business vision.

B.   BACKGROUND

The current CalPERS organization is built upon a traditional support model. Business operations are structured to support the key services CalPERS provides to its members and employers – Retirement Services, Benefit Services, Health Services, and Payroll/Contribution Services. Over time, each organization has grown to be somewhat independent in that, although they perform many of the same or similar functions, the services are decentralized. As a result, there is much duplication of effort and little or no process standardization across functional boundaries. In most cases, processes are manual in nature. Similarly, the existing automated systems built to support these functions were designed with a specific function in mind so they tend to mirror the processes that exist. Section III of this Request for Proposal (RFP) provides a more in-depth discussion regarding the problems, both business and technical, that the organization currently faces.

C.   CONCEPTS FOR PROPOSED BUSINESS MODEL

CalPERS has adopted an enterprise approach to better manage its operations. This new approach has triggered significant changes in organizational structure.   For example, CalPERS centralized three program-specific call centers into a single, consolidated CalPERS Customer Contact Center.   The information technology (IT) operations have been centralized to eliminate redundancies, optimize resource usage, and increase IT staff's ability to meet business demands. CalPERS launched a new project to centralize all accounts receivables functions within the accounting operation and enhance the current financial system accordingly. Most recently, CalPERS adopted an enterprise governance process that allows a balance between existing workload, budget commitments, and proposed projects.

It is CalPERS vision that the organization evolve into a "virtual" pension system model that utilizes the Internet as a primary channel for conducting business and processing transactions. By providing its members, employers, and business partners the capability to "self-serve" or perform routine transactions themselves without any interaction with CalPERS staff, work backlogs will be reduced and staff will be able to concentrate on the more complex and/or exception cases. Naturally, the transition to this new business model will be gradual and there is much work to be done to affect such a drastic switch in business communication channels. However, in order to ensure the business solution

provided as an outcome of the Corporate Online Member Employer Transactions (COMET) - Pension System Resumption (PSR) Project (PSR Project) supports this new direction, CalPERS has established ten strategic goals:

1. Provide an information system addressing all of the fundamental business requirements of California's public pension system.

2. Create a web self-service environment that facilitates "one stop shopping" including access to and management of current customer account information.

3. Eliminate the dependency on paper documents by providing the ability to accept information and process transactions electronically.

4. Increase the integrity of pension-related information by reducing multiple data stores and the manual entry of data.

5. Reduce the information technology costs related directly to the support of the retirement line of business.

6. Reduce the time to implement required pension system changes.

7. Reduce the workload devoted to data and reconciliation.

8. Apply business rules uniformly across all business components to ensure CalPERS adheres to all mandated laws, regulations, and policies.

9. Facilitate the movement to a more analytical work environment by automating more routine tasks.

10. Provide consistent presentation of pension-related information across all CalPERS business processes.

D.   OPERATIONAL POLICY AND CONSTRAINTS

While CalPERS intends to significantly change its business model, the organization must still maintain compliance with CalPERS Board of Administration (Board) policies, statutes, and regulations. Follow this link for Public Employees' Retirement Law (PERL).

Additionally, CalPERS is looking to the Qualified Business Partners (QBPs) to provide solutions that fit within CalPERS Enterprise Technology Architecture (ETA). Adhering to the ETA will facilitate CalPERS objective of implementing a technical infrastructure that supports change and flexibility in the business and administrative processes across the enterprise. A more detailed discussion on the ETA follows:

1. Conceptual Target Architecture

CalPERS primary goals for an ETA are to build an architecture where CalPERS systems, applications, and infrastructure work together to provide a technical

environment that is flexible, extendible, reliable, maintainable, and supportive of innovation solutions.

For CalPERS, the ETA serves four basic functions:

1. Creates a set of principles that guide future IT decision-making, business driver impact analysis, technology analysis and selection, and application design;

2. Provides the process for building consensus among business owners and the CalPERS divisions that develop IT solutions, and establishes an enterprise-wide ongoing working relationship for the continuous alignment of IT initiatives with established architectural policies, principles, practices, and standards;

3. Implements information systems in the context of a well-defined architecture; and,

4. Guides the acquisition and development of technology and provides a common structure, which enables a sustainable competitive advantage for the enterprise through periods of rapid change.

The purpose of the ETA is to set a vision and establish a common understanding at all levels in the organization of the underpinnings, design points, principles, and recommended practices required to sustain an adaptive technology infrastructure.

CalPERS Conceptual Target Architecture Vision is described in detail in Exhibit IV.1. Each QBP is responsible for ensuring they are familiar with this document and the constraints imposed.

2. Application Architecture Conceptual Model

The target application architecture defines how applications are designed and how they cooperate. The target application architectural vision for CalPERS is based on a number of interrelated business and IT goals that include:

• Providing an architecture that is applicable to small projects, yet robust enough to support enterprise-wide large scale projects;

• Enabling developers to quickly deploy business applications;

• Enabling developers to concentrate on the business aspects of applications; and,

• Freeing developers up from having to worry about the underlying technologies.

From the CalPERS architecture principles and these initial high-level goals, the following key strategies of the CalPERS target architecture have been identified:

• The architecture must be built to be resilient to change;

• The architecture and the applications built using the architecture must be cost effective to maintain;

- The architecture must support open standards;

- The architecture must be designed to be technology independent;

- The architecture and application interfaces must be highly-granular and loosely coupled to promote reuse; and,

- The architecture must be implemented in multiple layers with firm logical boundaries that separate the services and components.

CalPERS Target Architecture Principles are described in detail in Exhibit IV.2. Each QBP is responsible for ensuring they are familiar with this document and the constraints imposed.
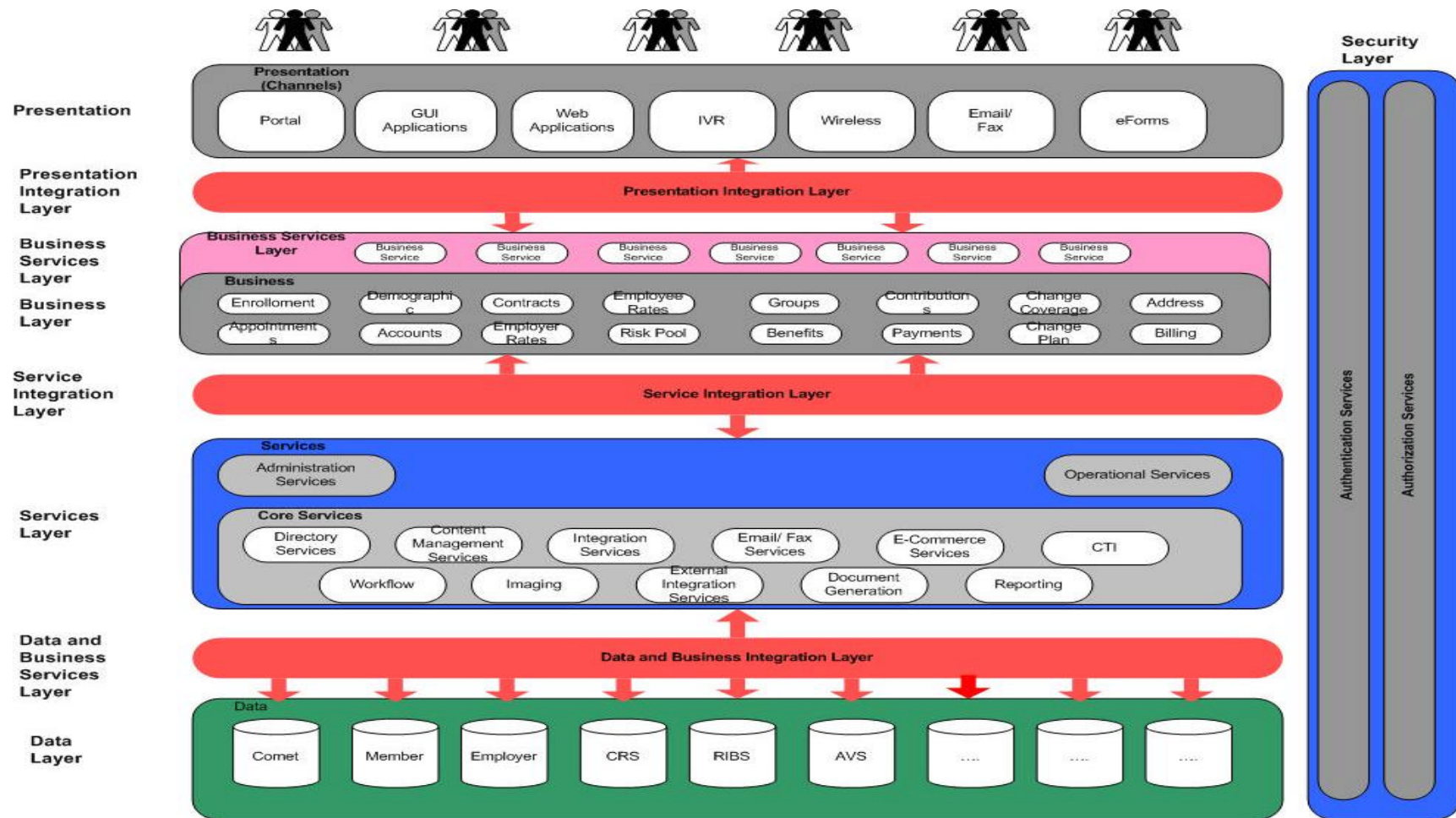
Illustration IV.1 – Conceptual Target Architecture

E. DESCRIPTION OF PROPOSED SYSTEM

As described in Section I of this RFP, CalPERS is resuming efforts to complete the Corporate Online Member Employer Transactions (COMET) strategy. This involves developing and implementing Contribution Reporting and Retirement Benefits Administration Systems to replace their legacy equivalents as well as completing the conversion of both the Judicial and Legislative legacy systems. It is envisioned that PSR will facilitate the access of pertinent data and applications by authorized users – members, employers, and business partners – from any place, at any time, using any approved access device. CalPERS staff will have access to the data they need in the format they require whenever they need it. Program-specific information will be maintained that allows staff to compile information and produce reports with minimal assistance from the IT organization. Common functions (e.g., address change, enrollment) will be performed via reusable business components. System changes due to legislation and/or CalPERS Board mandates will be effected with minimal disruption to overall system performance and availability.

Completing the COMET Strategy provides CalPERS many benefits:

- Facilitates the conduct of business via the Internet;

- Allows CalPERS to utilize more cost-effective business solutions (e.g., paperless environment);

- Increases operational capacity;

- Reduces CalPERS reliance on external consultants;

- Reduces IT maintenance and support costs (e.g., programmers, hardware, software, etc.);

- Establishes an enterprise technology architecture that facilitates the timely response to business changes; and,

- Simplifies the information systems infrastructure.

The benefits and opportunities PSR presents CalPERS are too great to ignore. As such, the organization spent considerable time and effort defining its business and technical requirements in a manner that ensures compliance while remaining open to new and better ideas for meeting their business needs.

As PSR is the catalyst for implementing CalPERS ETA, it is expected that the solution selected for PSR will align with the enterprise architecture strategy and adhere to the architecture principles described above and in Exhibit IV.2.